The Free Market

"If you don't create a free market, a black market will emerge"

NEWSLETTER OF THE LITHUANIAN FREE MARKET INSTITUTE - www.freema.org/Newsletter/index.phtml

NEWS

Lithuania and Russia will launch a joint project

The Lithuanian Free Market Institute (LFMI) and the Projects for the Future Foundation (PFF), Russia, will launch a joint project "Building a Sound Voucher System in Higher Education. Cross-border co-operation between Lithuania and Russia." The goal of this project is to advance a voucher funding reform in higher education by providing independent expert input to the policy making process and increasing public awareness of the need and essence of the reform. The overall objective is to advance a conceptual and legal basis for an economically sound voucher-funding scheme that would inject market principles and competitive forces in the system of higher education.

LFMI and PFF will undertake joint efforts to achieve the said objective. As the first step, the Lithuanian and Russian project teams will make overviews of the existing situations of higher education in their respective countries, a comprehensive analysis of the developments and policy changes that have taken place during the years of transition to the present day as well as an evaluation of the current reform proposals and ongoing policy debates. The research and evaluation will provide a basis for developing a model and conceptual framework of a market-oriented voucher-funding system in higher education. Specific policy measures and recommendations, including necessary changes in the legal basis, will be formulated in order to prepare a comprehensive reform proposal for installing a sound voucher system in higher education.

A policy advocacy and dissemination campaign will be organized to widely present the results of the project, to stimulate policy debates and to gain support and passage for the proposed reform. The recommendations will be submitted to the policy community, decision-making bodies and executive branches of the government, higher educational establishments, interested NGOs, and mass media.

The joint project is supported by Freedom House. The life of the project will be eight months; it will be launched in May, 2002.

LFMI continues a course on freedom

In February 2002, LFMI started delivering a semester-long university course "Capitalism and Freedom" for a second year, which is aimed to instil in students self-conscious liberal thinking through the study and internalization of sound social and economic ideas. By giving this course, LFMI seeks to develop a tradition of teaching freedom as a subject that requires profound public understanding. It is tailored for second-year students of law, economics, political science, sociology, philosophy, journalism, and others.

This year the course is delivered for students of law, economics, philosophy, political science, and communication at Vilnius University. This course will give students two credits, while those who will complete it successfully will receive a course certificate issued by LFMI.

LFMI's course on freedom was launched in 2001, when LFMI became a winner of the Sir John Templeton Foundation's International Freedom Project, directed by the Atlas Economic Research Foundation. This project aimed to encourage and support studies on freedom in many universities of the world. An international jury selected fourteen applications, among which was LFMI's application for a course "Individual, Society, Freedom and the Market" (its original title). Other winners were universities from Italy, Spain, Australia, Philippines, Montenegro, Serbia, Russia, Turkey, France, Nigeria, and Guatemala.

For a detailed description of the course, please visit our home page at http://www.freema.org/Projects/Course.phtml.

LFMI discusses news on a popular radio station

Currently, LFMI and one of the most popular radio stations in Lithuania, *M1 Plius,* are carrying out a joint-project "Laisvoji rinka" ("The Free Market"), aimed at enlightening the public about the ideas of the free market and limited government. Every working day LFMI policy analysts comment on the hottest news from the market and government, alert the public about planned policy actions, evaluate their implications for people's lives and warn of likely setbacks that may be caused by inadequate policy decisions. These comments are broadcast two times a day every working day. They are also posted on a popular Lithuanian internet portal "Sala" (www.sala.lt). This project was launched in September 2002 and will over in early summer.

A series of educational seminars

In 2002, LFMI started a series of educational seminars-discussions, which aims at bringing together experts of economy and finances, politicians, journalists, lecturers and students to discuss the most pressing economic events and latest tendencies in the world and Lithuania, to analyse their causes and consequences, and to exchange views on them.

On February 15, LFMI held the first seminar "**Why the Argentine Government Went into Bankruptcy?"** The event was designed to discuss the issues related to the crisis in Argentina - what caused the financial problems there and what the Lithuanian administration should learn from Argentina's policies. The second seminar **"Can Agriculture be a Competitive Business in Lithuania?"** took place on April 19. Participants analysed such issues as the specifics of agriculture, the effects of the milk sector liberalisation, current agricultural policies performed in Lithuania, and the perspectives of Lithuania's farmers in the EU.

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FEATURE

At present the Lithuanian parliament is debating a project of a new Labour Code which should be adopted in April – May 2002, replacing the old Labour Code which has been in effect since 1972. The adoption of this document will be a very important event since it will determine future prospects and legal status of the larger part of population directly participating in labour relations. LFMI's policy analysts were actively involved in the debates of the new Labour Code: they took part in parliamentary sittings and submitted recommendations on how to improve this document, underlying the need for liberalisation of labour relations. They drew attention to the changing market conditions and overall global trends, as well as called for ensuring as much as possible freedom of contract between employers and employees. LFMI's policy analysts also discussed this topic on radio programmes, published articles and comments in the press. We offer one of the articles to the readers of The Free Market.

Socialism, Capitalism or the European Union? Labour Code at Crossroads

Remigijus Šimašius, Policy Analyst, LFMI

Not just fairytale characters come to the crossroads. Each of us makes lots of decisions every day on which our future depends. However, some people have the power and responsibility to decide not only for themselves, but also for others. By raising their hands, members of the parliament direct people in Lithuania onto the road chosen for them by the government. One of such crossroads is the new Labour Code which the parliament is to adopt this spring.

As it befits a crossroad, there are three optinions available for employment regulations. The first one is to claim that human labour should not be treated as goods, that's why it may not be exposed to market laws. Hence, the parties should not be allowed to agree on labour independantly and instead, they must be instructed as to who, how and what needs to be done. This is the road of socialism. It may be luring, but whoever chooses it is doomed to disappointment.

All goals which make us violate the freedom of contract are doomed to failure. Should you choose to fix a minimum wage – you are bound to have unemployment; should you choose to limit the working hours – you are bound to infringe employement regulations; should you make agreements between trade unions and employers mandatory – and you are bound to witness their endless disagreements; should you try to protect one party to the employment contract – such protection is bound to be detrimental to both of them. This is the road which, depending on perseverance and patience to learn life lessons, can lead very far. Lithuanians have already shown that they lack such enduring patience as demonstrated by the people and leaders of the North Korea who even in sight of imminent hunger would not go astray off the socialist path.

The second option would be to recognise that labour is what every individual may offer in exchange for the resources needed to live on and to let the labour market prosper. Often this road is labelled as jungles of wild capitalism, where the strong are just waiting to hurt the weak. It is a fallacy to use such a metaphor, since market relations are based on negotiations and exchange rather than coercion.

History bears witness to the fact how capitalism abolished compulsory labour, whereas in socialism it returns, sooner or later, in the form of labour camps, collective assistance, mandatory placements, constructions by the Komsomol or other. We often forget that it was nothing else but the capitalist order which allowed for opportunities to ensure welfare in each society and to turn an ordinary individual into a key player of the society. All this happened only when human labour – the most scarce resource in economy and a tool for achieving any other goals – has become human property.

This order is disliked by a great many from Marx to contemporary street politicians, because they see employers as forcing employees to work overtime and to receive less than is due. Such approach is partially natural: everyone wants to buy at a low price and to sell at a high one (in this particular case – his own labour). We should not forget, though, that nobody else apart from an individual himself can assess how much is "too much", and how much is "too little". Disregard for this simple fact forces Lithuanian people to seek for new opportunities and well-being in those countries which enjoy greater freedom. Any attempt to make the so-called "jungles" of capitalism into a park tends to transform them into a dessert.

Many legislators are well aware that the socialist path leads astray. The capitalist road, on the other hand, seems rather obscure, especially since the electorate represented by trade unions always lobby in the government for better pay for their labour force. This is when a salutary alternative comes into play – a "third path", which tries to combine the best from the previous two systems. There are no landmarks on this road, and so as not to get lost on this twisting road, one needs a beacon – the European Union. It is luring a lot to go in this direction, especially since all the previous travellers have secured themselves a good life, are inviting us to follow their lead and are ready to give advice.

Regrettably, beacons are often nothing but a mirage... At a closer look one can see that the welfare in the European Union is created on the surviving elements of capitalism, with all regulations being in its way. We notice quarrelling people – one group of them claim that the pursuit of the golden mean shall be continued further, others think it is high time we went back to the road of capitalism. An example to that could be the ongoing discussion on temporary employees. Upon the introduction of this more flexible form of employment, many undertakings were able to enhance their efficiency, new businesses have developed and jobs have been created. Against the background of proposals to regulate it as permanent employment, one can also hear dissenting voices that this would destroy jobs and totally disrupt the already shaky economy of Europe and Germany, in particular.

The opinion which is gaining more ground in the European Union is that strict employment regulations is the key reason for the backwardness of its member states. The liberal states of the EU, such as Great Britain and Ireland (the target countries for many Lithuanian people who emigrate there by various possible means and who in very rare cases settle down in France, a member of the same European Union) are becoming more adamant in their discussions on employment regulations with the remaining and less liberal EU member states. One can observe the EU's attempts to catch up with and keep abreast of the US, while the latter continuously sneer at semi-socialist policy prevalent in EU employment regulations. Moreover, often an opinion can be heard in the EU that instead of forcing the candidate countries to repeat its mistakes the EU should learn from them instead. Such discussions are repeatedly voiced during all major European forums. The recent EU summit meeting in its conclusions also underlined the need to reform employment regulations.

Countries that have chosen the third path escape the repercussions of socialism, but in comparison with those on the capitalist path, create fewer values, receive lower salaries and face higher unemployment. The conclusion Lithuania should draw is very simple: instead of cherishing illusions, policy makers should adopt decisions which would do make life better and not just sound nicely, and when solving the problems of capitalism, legislators should not destroy its magnificent achievements.

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FEATURE

The following article was published in a bimonthly magazine Lithuania in the World *(2002 No.1). It discusses the issues of high* vs *low taxes, the Tax Freedom Day and offshores...*

The More the Better: but not Taxes!

Tax and spend is hardly the recipe for economic success

Rūta Vainienė, Vice President, LFMI

Let us take a quick look at the pocket of an ordinary Lithuanian citizen. According to the Lithuanian Department of Statistics, an average Lithuanian household spends roughly 43 percent of their expenditures on food, almost 11 percent on housing and utilities, and 7.5 percent on clothes and footwear. Other needs absorb even less. The data of the Department of Statistics lack one item of expenditures, one large portion of people's outlays. I am talking about taxes we pay to the state. The amount of money we give away in taxes is best reflected in the share of the country's gross domestic product that is redistributed through the state budget, or the tax burden.

How much we pay

The Lithuanian Free Market Institute has calculated the tax burden for nine years now. In 2001 the tax burden comprised 37 percent of Lithuania's gross domestic product. This means that an average Lithuanian taxpayer works a total of 134 days a year to pay off the demands of the state and finance its obligations.

So in 2001 the Tax Freedom Day – the day in a year when people stop working for the government and begin to enjoy the full benefits of their labour – came on May 15th. In 1993, for example, this day fell on April 13th.

In 1995 Lithuanians turned over to the government all income they earned until April 27th, with the Tax Freedom Day moving still later in the calendar. In 1999 and 2000 we worked until April 16th to pay the total tax bill imposed by all levels of government.

In some countries the Tax Freedom Day occurs earlier than in Lithuania. In the Unites States, for instance, people stopped working for the government on April 23rd. In most European countries, however, the Tax Freedom Day comes later than in Lithuania. Germans worked until June 21st to pay off their obligations to the state. In Spain the Tax Freedom Day occurred on May 28th. The taxpayers in Sweden sweat under the tax burden until as late as August 20th to maintain their "welfare" state.

Although the share of income paid in taxes is quite sizeable, very few of us really know how much money we hand over to the state in the form of taxes. The reason for this is quite simple.

In Lithuania the tax system is constructed in such a way that people do not pay taxes themselves. It is companies that do it for them. Companies deduct and pay personal income tax; they collect and turn in to the government value added tax. All other taxes, such as the corporate income tax or excise duties, the burden of which is carried by ordinary citizens in the final analysis, are in general unseen and hidden in the prices of goods and services.

Although people do not know the precise amount of money they pay in taxes, they all agree that the level of taxes is all too high in Lithuania. But when the Lithuanian officialdom is asked to appraise the tax burden, they answer in unison that it is among the smallest in the world. So why is this seemingly objective indicator viewed so differently?

First of all, while one sector of the population pays taxes, the other lives off them. Second, when the taxpayers compare the level of taxes in Lithuania and in other countries, they take into account the difference in the amount of income they receive.

Politicians and state officials, however, have a proclivity to compare Lithuania with countries where redistribution is even higher. They seem to disregard the fact that the share of money that remains after all taxes have been paid does not suffice to satisfy even basic human needs.

Higher taxes: a better life?

It follows that those who live off taxes regard a higher redistribution as a value in itself. They point out that taxes are higher abroad and people live better there.

Both these statements are correct. Yet, there is no connection between them. People in Western countries enjoy higher living standards not because they pay higher taxes. They are wealthier because they have lived under a market economy for a longer period of time and because they work better.

More importantly, they live better because at the time when Western European countries flourished, their taxes were much lower than today and much lower than in Lithuania. These nations are simply reaping the benefits of the acceleration they achieved when Lithuania did not even take the road to capitalism.

True, this acceleration is decreasing, so countries with high taxes are quite apprehensive about the competition they face from tax heavens. They also unjustifiably label it as unfair.

The link between high taxes and people's well-being is opposite. The surveys of freedom conducted by such organisations as the Heritage Foundation, Freedom House and the Fraser Institute indicate quite explicitly that the more freedom a nation enjoys and the lower the taxes it pays, the more wealth it creates.

If countries in transition follow the advice of international organisations and raise taxes, they will hardly reach the level of developed nations, except at the cost of the latter's economic decline.

Ominously low taxes

When Lithuania was creating its tax system, there were various options to choose from. They ranged from a pro-liberal tax reform proposed by the Lithuanian Free Market Institute, with the abolition of the corporate income tax being the cornerstone of the reform, and tax cuts to progressive income taxes and the like.

One important thing that must not be ignored here is that those who determine the rates of taxes – politicians and government officials – have panic fear of low taxes. They say that low taxes will get Lithuania into the bad books, while the tax rules will be recognised as having a detrimental effect on competition. In order words, they are scared Lithuania will become a tax heaven, which will result in jeopardising interstate political relationships.

Similar arguments accompanied the adoption of a new law on the corporate income tax in December 2001. It was feared lest a 15-percent tax rate should turn Lithuania into an offshore, in spite of the fact that the tax base was expanded in order to double budget revenues from the tax.

Why are tax heavens so terrifying? First, growing tax burdens in developed countries bolster incentives to take advantage of a more favourable environment offered by tax heavens. The higher the tax rates in other countries, the more attractive the tax heavens.

It could be said that the rise of tax heavens is directly proportional to, and completely consequent upon, tax policies pursued by other countries. Tax hikes there are a direct contribution to the prosperity of tax heavens.

This explains why almost every large corporation has branches in tax heavens. Over one thousand new companies are started there every year. It is estimated that some two thirds of the world's transactions are concluded through entities operating in tax heavens. Impressive, isn't it?

Being quite small in terms of territory and population as well as not influential politically, tax heavens manage to outrival large nations by virtue of their tax policies, by draining the budgets of these nations on the one hand but enriching their residents on the other. Running business in a tax heaven means saving a considerable amount of taxes, which makes it possible to reduce costs, to boost sales and so to make more profit.

Is competition harmful?

Tax heavens are being accused of unfair competition because they offer a more favourable tax environment. Different political and economic measures are being taken against them. Political relationships are being terminated. Countries with high taxes are introducing discriminatory tax regimes for residents, employees or anyone connected with tax heavens.

Lithuania reacted in a similar way when it imposed a 29-percent tax on various types of payments to tax heavens. (It should be noted that the tax rate was lowered to 15 percent later on.)

The new law is targeted at the taxation of positive income. It is intended to restrict relationships with tax heavens and, in the case such relationships do exist, to expropriate an adequate share of taxes to the Lithuanian budget.

It is useful to note that all attempts, including those taken by Lithuania, to outrival tax heavens in one way or another end up in a fiasco. They do not only fail to generate additional proceeds to national budgets and to curb relationships with tax heavens. Quite the opposite: they make tax heavens even more attractive. It does not take long to find a way round a new restriction imposed on relationships with tax heavens.

Countries that impose discriminatory tax rules against tax heavens maintain that they do so as a reaction against unfair competition. But is this kind of competition harmful and reprehensible?

Competition is dangerous only when certain rules are inflicted in a coercive manner. Tax heavens charge low taxes only on companies that are registered on their territory. They do not force or require other nations to follow their rules.

More importantly, coercion goes in the opposite direction as all possible measures are taken to make tax heavens raise their taxes. A leader of one tax heaven once responded to recommendations to increase taxes by saying that he did not see the need to do that as the existing tax rates completely satisfied the needs of the state.

Indeed, if taxes were eliminated from the area of interstate competition as its most significant and powerful instrument, countries would be deprived of their identity. Applying the same policies in the field of private competition would be tantamount to imposing a requirement that all restaurants offer the same menus or all stores offer only the most expensive goods.

A third way

The fear of politicians that their countries will become tax heavens is quite groundless. It appears that being a tax heaven takes more than simply charging low taxes.

According to the OECD, the distinguishing features of tax heavens are low effective tax rates, an inadequate exchange of information, a lack of transparency and an absence of a real business activity. The application of distinct, privileged rules to companies established by non-residents is the hallmark of tax heavens.

So, if Lithuania introduces lower direct taxes on all enterprises that pursue a business activity on its territory as compared with other countries, it does not necessarily follow that it claims to become a tax heaven.

Those who see only two options – high taxes of the European standard and nominal taxes charged by tax heavens – should be reminded that there is a third way. It consists of low taxes for residents, transparent rules and an open economy, qualities that must be attractive to emerging market economies and developed countries alike.

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ACTIVITIES AND ACHIEVEMENTS

January – March 2002

Agricultural policy

LFMI has submitted policy recommendations to the Parliament and the Government urging them to vote down amendments to the Law on State Regulation of Economic Relations in Agriculture. They provide that a “not higher than a 25-percent mark-up is set on agricultural products and all foodstuffs realised in the domestic market, except on vegetables and fruit, for which a mark-up not higher than 50% is to be imposed”. LFMI’s policy analysts have also analysed a draft law on the development of agriculture and rural areas and submitted a policy paper to the parliamentary committees. This law should become the main legal document regulating the agricultural policy in Lithuania, which will prescribe the basic policy principles and implementation measures. The Parliament is still debating this draft. LFMI’s policy analysts have commented extensively on the problems and prospects of agriculture during various events and in the mass media.

Budget policy

LFMI’s policy analysts have always criticised a faulty principle of state budget formation – setting, by laws, a fixed amount of budget revenues, depending on macroeconomic indicators, to be allocated to specific areas. Eventually, the Constitutional Court has concluded, corroborating the LFMI’s opinion on this issue, that laws may not prescribe expenditures to carry out permanent state functions and to finance everyday needs of the society including the agriculture. Otherwise, as decided by the Constitutional Court, the constitutional notion of the state budget would be distorted – a constitutional institute of a budgetary year would become senseless and the Government’s constitutional right and duty to draw up a project of the state budget and the Parliament’s constitutional right and duty to enact it would be denied. Furthermore, in February 2002, the Government approved of a draft amendment to the Law on Budgeting, proposed by MP K. Glaveckas, according to which allocations as a fixed amount of the budget or as a percentage of macroeconomic indicators will not be established by laws and legal acts. If this amendment is enforced, all areas financed from the budget will be granted equal conditions to receive financing, the achievement of strategic goals of the state will be facilitated, and the use of the budget will become more transparent. At present the amendment is under parliamentary debates.

Capital markets

LFMI’s policy analysts take part in a working group set up at the Sunrise Commission for improvement of capital market regulations and submit proposals on how to make the capital market in Lithuania more active. By preparing and presenting a policy paper on the development of the securities market, LFMI has initiated a wide public debate on the prospects of this market and the need to privatise Lithuania’s National Stock Exchange. The policy analysts emphasised – both in the mass media and in the policy paper for the authorities – that the future and viability of the securities market may be related only to globalisation and integration into the world capital movement, while privatisation of the National Stock Exchange would serve as a strong impetus in this respect.

Company law

LFMI has submitted to the Ministry of Economy a policy paper on a draft of new law on sole proprietorships. LFMI proposed the authorities to consider the need to maintain the status of a sole proprietorship and a possibility to amend the existing Law on Companies rather than adopting a separate new law. The draft law has not been debated by the Government yet. LFMI has also made proposals regarding a draft law on companies, liberalisation of lease regulation in the Civil Code, a ban on cash settlements, etc to the Sunrise Commission. These proposals are still under the Commission’s debates. LFMI is glad to inform that the Parliament has adopted amendments to the Law on the Names of Companies initiated by LFMI. These amendments will grant more freedom in the formation and registration of company names. They allow registering names formed of letters, numbers or their combinations that may not be treated as words but that are understood as a firm’s name and are not misleading. It has also been decided that, in forming and using company names, only the norms of the standard Lithuanian language should be taken into account, while the requirements of the State Lithuanian Language Commission will not be applied.

Deregulation

Building and land sales. LFMI's policy analysts constantly monitor and analyse legal acts regulating building activities and submit their proposals to a working group set up at the Sunrise Commission to simplify building regulations and land sales. The latest comments submitted to this group pertain to land and territorial planning: LFMI proposed to lift the existing restrictions on land rent and to simplify procedures of the preparation and approval of detailed plans as well as the maintenance and utilisation of objects of cultural heritage. The Sunrise Commission has endorsed some of LFMI's proposals and is to submit them to the Government for consideration.

Customs. Since 2001 LFMI's policy analysts have participated in the Customs Advisory Committee and submitted recommendations for simplification of customs procedures for residents and enterprises. However, no tangible results have been achieved so far, as the work of the Commission is narrowed to a mere exchange of information and no decisions on specific amendments have been adopted. LFMI has also formulated and submitted policy proposals on the simplification of customs procedures to a working group on transit and customs formalities at the Sunset Commission. These proposals are still under consideration by the working group. It should be noted that legal institutions recognise that certain customs regulations are faulty. For example, the Panel of Judges of the Vilnius District Administrative Court has adopted a decision that the provisions of the Customs Code permitting customs officials to determine a value of imported goods at their own discretion and to use this value as a basis for calculating VAT and import duties contravenes the Constitution of the Republic of Lithuania. The Customs Code containing this provision that has raised much doubt and has been strongly criticised by LFMI was adopted in 1996.

Education

LFMI has submitted to the Ministry of Education and Science and other relevant authorities a policy proposal on a draft law on education, emphasising the need for its revision. LFMI stated that the draft law should provide more consistently for the education system reform based on competition, decentralisation, and private initiative. LFMI's policy analysts have discussed extensively on this issue in the mass media and during various events.

Employment regulations

During parliamentary debates of the draft Labour Code, LFMI's policy analysts took an active part in the sittings of the parliamentary Committee of Social Affairs and Labour, emphasising the need to liberalise labour relations. Upon updating their recommendations according to the last amendments made by the Committee, LFMI resubmitted a comprehensive package of policy proposals for revision of the draft code. LFMI also sent an open letter to all MPs, drawing their attention to the changing market conditions and urging them to leave as much freedom of agreement between employers and employees as possible. LFMI's policy analysts discussed this subject extensively in radio broadcasts and published a number of articles and comments in the press. For the time being debates on the draft Labour Code continue. The code should be adopted in April-May 2002.

Energy sector

After the Parliament returned a draft Law on Energy to the Government for revision, LFMI's policy analysts took part in the meetings of its drafters and resubmitted their comments on the draft. They proposed that no restrictions should be imposed on competition in the energy sector and that unnecessary restraints on operation should be abolished. The drafters approved of LFMI's proposals and removed the provisions on zoning the activities of energy transmission and distribution enterprises as well as on the right to fix energy prices and price regulation principles on basis other than according to the law. LFMI has also submitted to the Government and the Ministry of Economy comments on draft amendments to the Law on Natural Gas (Articles 5 and 12). The proposed amendments introduce two new restrictions: 1) a requirement to obtain a licence to render gas supply services to all customers, not just regulated customers as it is required in the effectual law; 2) shortening of the list of entities entitled to use the transmission system (free customers were replaced by entities that use gas as raw material and distribution entities were removed). After LFMI submitted comments, the Government rejected the amendment concerning shortening of the said list, but approved of the introduction of licenses.

EU integration

Within the framework of a project "Lithuania's Integration into the EU Single Market: the Regulatory Impact on Lithuania's Economy", LFMI carried out a study on chemicals industry *Changes in the Operation of the Achema Company in the context of EU Integration*. The study analyses national and EU legal acts regulating the chemicals industry and assesses changes in the economic-regulatory environment taking place in Lithuania and their impact on the company's operation. The study focuses on the evaluation of application of the EU trade, transport, energy, tax, social and environmental requirements in Lithuania. In addition, LFMI has prepared a study on regulatory effects on the economy in Lithuania which will be included in the World Bank publication *Lithuania: Readiness for EU Integration*. LFMI's policy analysts have expressed their opinion on the consequences of integration and the need to assess them in the mass media and in various conferences and discussions.

Foreign trade

LFMI's policy analysts have continued participating in a commission set up at the Ministry of Economy to analyse and solve issues of customs duties. LFMI has submitted a proposal to this commission and the Government Office to repeal an import duty levied on the long flax fibre. The commission endorsed this proposal and intends to submit it to the Government for consideration.

Health care

LFMI has submitted comments on the principal provisions of a draft law on pharmaceutical activities to the Parliament. One of the proposals is to revoke a requirement that the owner of a pharmacy of any legal status must have a pharmacist's or pharmacological qualifications. LFMI has also submitted its comments on this issue to the Constitutional Court, which ruled (on 14 March, 2002) that the Constitution did not permit restriction of an individual's right to property on the basis of his education. Mandatory requirements for pharmaceutical qualifications should be established for persons who conduct pharmaceutical activities in pharmacies but not for persons who seek to own a pharmacy by the right of ownership, the Court stated.

Information technologies

While taking part in a working group on information technologies and telecommunications at the Sunrise Commission, LFMI's policy analysts submitted a list of barriers to IT&T business and proposals how to eliminate them. Most of these proposals have been endorsed by the Supervisory Committee of the Sunrise Commission and they are to be submitted to the Government for consideration. LFMI's policy analysts also participate in a working group on drafting amendments to the Law on Electronic Signature. These amendments aim at extending the possibilities to use e-signature in the market. At present they are being considered by the Parliament. LFMI has also submitted comments on the requirements for certification service providers (prepared by the Committee for the Development of Information Society at the Government), on a strategic plan for the development of knowledge economy in Vilnius city, and on a draft strategy for the development of an integrated system of state registers. Part of LFMI's proposals on the latter strategy has been incorporated.

Monetary policy

Prior to the national currency's re-peg to the euro, LFMI's policy analysts published a great number of articles in the national and regional press concerning the introduction of euro and its effects on Lithuania and the re-peg. The policy analysts pointed out the importance of getting ready for the shift of the anchor currency and provided practical advice on how to prepare for this event.

NGO

LFMI has analysed a project of amendments to the Law on Public Institutions initiated by the Ministry of Economy and submitted a package of policy recommendations. LFMI proposed to remove a ban on public institutions to secure and guarantee third party liabilities, to lift a restriction on the right to form non-collegial bodies of a public institution, to eliminate the obligation to conclude an employment contract with the head of a public institution, etc. The project of amendments is to be debated by the parliament in the nearest future. As the Ministry of Justice was drafting amendments to the Law on Charity and Support Funds and to the Law on Public Institutions, LFMI submitted a policy proposal for their revision. So far, these drafts have not been presented to a meeting of the Government.

Privatisation and competition

As it has been mentioned (section *Capital Market*), LFMI has initiated a discussion on the privatisation of the National Stock Exchange. LFMI has also submitted to the Constitutional Court its conclusions whether certain clauses of a government resolution on introduction and use of cash registers comply with the Constitution and the Law on Competition. At present, competition issues are especially relevant to the regulation of the telecommunications sector (see section *Telecommunications*).

Public administration

Public procurement. LFMI has submitted a policy proposal for revision of the Law on Public Procurement to the Ministry of Economy, a working group on public procurement at the Sunset Commission, and to the parliamentary committees. At present, a working group at the Ministry of Economy is drafting a new version of this law, so LFMI's policy analysts have also submitted proposals how to increase publicity and transparency of public procurement and how to facilitate the work of institutions participating therein.

Legislation. LFMI's policy analysts have been invited to take part in the Legislation Commission at the Ministry of Justice and to chair a working group established to draw up a conceptual framework for the improvement of legislation.

Social policy

Pension system reform. LFMI has analysed a conceptual framework for the reform of state pension system and submitted comments to the Ministry of Social Affairs and Labour. The policy analysts welcomed the Government's initiative to scrap unjustified privileges and benefits undermining social fairness, but they noted that the framework should be revised. They stated that it is necessary to define concrete dates for halting the expansion of state pensions, for reduction of their size, for revoking state pensions as well as to determine how these steps will be implemented. LFMI proposed that the reform of state pension system should be launched without delay, instead of waiting until the pension system reform is completed. The Government has not debated this framework so far. LFMI has also revised its position on the pension system reform and intends to take an active part during the parliamentary debates of a draft law on the pension reform. LFMI proposes that all citizens should be granted the right to choose whether to participate in the private fully-funded pension system or to remain in the state social security system (with an undivided social insurance contribution paid to the Social Insurance Fund). LFMI also proposes that employees should be allowed to accumulate their old-age pensions both in pension funds and in insurance companies.

Tax policy

LFMI closely monitors changes in Lithuania's tax system and their influence over people's welfare: they analyse tax legislation, take an active part in a working group on taxation at the Sunrise Commission, and emphasise the importance of tax reduction in public debates.

Income tax for individuals. After the Ministry of Finance prepared a draft law on the income tax for individuals, LFMI analysed it and proposed its revision in order to avoid double taxation and an increase in the tax burden. Recently, the Lithuanian Social Democratic Party has proposed the introduction of progressive income taxes which encouraged LFMI's policy analysts to remind the public of the negative consequences of such taxation. Discussions on this issue are still underway.

Corporate income tax. After the adoption of the Law on Corporate Profit Tax, the Ministry of Finance is drafting secondary legislation, so LFMI's team analyse and comment on them. LFMI has also submitted recommendations for revision of the procedures of proving, recovering and calculation of bad debts as well as comments on a project of order by the Minister of Finance concerning the procedure of deductions of repair and exploitation costs from companies' income. In adopting the said procedure, it was revised according to LFMI's proposals submitted to the Sunrise Commission's tax group: the Ministry of Finance abandoned the requirement of vehicle expense sheets as a needless bureaucratic restriction that does not help achieve the set objectives. Thus, for fuel accounting purposes enterprises may, in place of vehicle expense sheets, refer to the readings of vehicle meters or fuel purchase documents confirming the actual fuel costs.

Value-added tax. Having analysed the provisions of a newly enacted VAT Law, LFMI's policy analysts commented widely on its faults in the press, on the radio and TV, criticising preferential VAT tariff rates (5 percent and 9 percent - on tourism, medicines, meat, ecological products and dwelling construction financed from the budget) and restrictions on VAT returns for purchased cars. It should be noted that after LFMI submitted their comments on a draft of this law when it was debated in the parliament, restrictions were removed on VAT returns for goods and services related to the exploitation of cars and on fuel and lubricants consumed by cars.

Tax on land lease. LFMI has submitted comments on the provisions of the Law on Tax on Lease of State Land and on application of this tax to a hearing of the Constitutional Court. LFMI concluded that due to inaccuracies of provisions and terms contained in the legal acts, the authorities themselves became confused – they do not know how to apply the land lease tax established by the said law and a related government resolution, which institution should administer and collect this tax, and whether additional payments for lease may be charged. Based on LFMI's conclusion, the Constitutional Court ruled that Clause 4.2 of the government resolution on the management of the Klaipėda State Seaport, which charged the Ministry of Transport with the responsibility of drafting and approving the rules for the lease of the territory of the Klaipėda State Seaport, run counter to Article 11(1) of the Law on Land Lease. In addition, LFMI is taking an initiative to draft amendments to the laws that would eliminate double taxation of the lease of public land.

Tax administration. At the request of the Constitutional Court, LFMI has presented arguments whether the provisions of the Law on Tax Administration and a government resolution, regarding setting of tax rates and indirect methods of establishing the tax base, are constitutional. The Court has not adopted a decision on this issue yet. LFMI intends to propose amendments to the Law on Tax Administration which would entitle the Ministry of Finance rather than the State Tax Inspectorate, as it is at present, to interpret tax legislation. After eight years of discussions, a linkup between tax collection and information systems of the State Tax Inspectorate and the Social Insurance Fund was launched; the relevant draft amendments have been registered and are under parliamentary debates at present. It should be mentioned that LFMI has submitted such proposal to all the governments.

Telecommunications

While taking an active part in a working group on drafting a new version of the law on telecommunications, LFMI's policy analysts submitted comments identifying unnecessary regulations for market participants. The Institute has also analysed a government resolution on price caps on telecommunication services and submitted its comments to the government institutions, stressing that implementation of this resolution will have negative effects on the telecommunications market.

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If you don't create a free market, a black market will emerge

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LFMI pursues its mission by conducting research on key economic policy issues, developing conceptual reform packages, submitting policy recommendations at the legislative and executive levels, drafting and evaluating legislation, and launching public campaigns. LFMI‘s activities also include sociological surveys, publications, conferences, workshops, and lectures.

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